

## CREDIT OPINION

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### Contacts

Nicholas Lehman +1.617.535.7694  
 VP-Senior Analyst  
 nicholas.lehman@moody's.com

Michael Wertz +1.212.553.3830  
 VP-Senior Analyst  
 michael.wertz@moody's.com

### CLIENT SERVICES

Americas 1-212-553-1653  
 Asia Pacific 852-3551-3077  
 Japan 81-3-5408-4100  
 EMEA 44-20-7772-5454

# Brookline (Town of) MA

## Update to credit analysis

### Summary

Brookline, MA (Aaa stable) benefits from a sizable tax base that continues to experience strong valuation growth due in part to the town's favorable location neighboring the city of Boston, MA (Aaa stable). The town continues to maintain a very stable financial position although reserves are below average compared to regional and national peers. The financial position is also bolstered by strong taxpayer support for debt exclusions and general overrides to the tax levy limit that provides greater revenue flexibility. These strengths help to mitigate an above average debt burden that materially increased in 2020 due to large and planned issuance for a new high school and other school capital projects. We expect the unfunded pension and OPEB liabilities to remain manageable given the town's commitment to addressing these liabilities over the long term.

### Credit strengths

- » Sizable tax base with very strong resident wealth and income
- » Comprehensive fiscal policies and planning
- » Long trend of stable financial operations
- » Taxpayer support for general tax levy limit overrides and debt exclusions

### Credit challenges

- » Growing capital needs driven by upward trending school enrollment
- » Limited operating flexibility under Proposition 2½

### Rating outlook

The stable outlook reflects the strong positive trend in tax base valuation that is expected to continue given its favorable location next to the city of Boston (Aaa stable). The outlook also incorporates the strong fiscal management that includes multi year budget forecast, capital planning and commitment to addressing long term liabilities.

### Factors that could lead to an upgrade

- » Not applicable

### Factors that could lead to a downgrade

- » Trend of operating deficits that result in a material decline in reserves

- » Decline in general fund reserves
- » Material tax base contraction
- » Continued growth in the debt burden
- » Significant increase in pension and OPEB unfunded liabilities
- » Significant decline in the long term credit profile (BANs)

## Key indicators

Exhibit 1

Brookline (Town of) MA	2015	2016	2017	2018	2019
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$17,051,417	\$17,051,417	\$20,944,753	\$20,944,753	\$24,547,879
Population	59,132	59,132	59,246	59,234	59,234
Full Value Per Capita	\$288,362	\$288,362	\$353,522	\$353,593	\$414,422
Median Family Income (% of US Median)	207.7%	207.7%	205.9%	206.2%	206.2%
<b>Finances</b>					
Operating Revenue (\$000)	\$232,769	\$250,639	\$276,878	\$292,697	\$308,350
Fund Balance (\$000)	\$24,550	\$28,845	\$33,692	\$35,715	\$37,896
Cash Balance (\$000)	\$33,137	\$40,526	\$41,462	\$46,470	\$48,747
Fund Balance as a % of Revenues	10.5%	11.5%	12.2%	12.2%	12.3%
Cash Balance as a % of Revenues	14.2%	16.2%	15.0%	15.9%	15.8%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$61,105	\$71,248	\$99,188	\$151,645	\$176,140
3-Year Average of Moody's ANPL (\$000)	\$373,012	\$383,535	\$409,408	\$445,682	\$467,303
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.5%	0.7%	0.7%
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.4x	0.5x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.2%	2.2%	2.0%	2.1%	1.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.6x	1.5x	1.5x	1.5x	1.5x

As of June 30 fiscal year end

Source: Moody's Investors Service and Brookline's audited financial statements

## Profile

Brookline is a sizable residential community with a population of 59,246 neighboring the City of Boston.

## Detailed credit considerations

### Economy and tax base: Large and affluent tax base neighboring Boston

Brookline's \$24.5 billion tax base (2019-20 equalized value) will remain stable with moderate growth over the medium term given its favorable location, high value housing stock and strong resident wealth and income profile. Neighboring the city of Boston, the town benefits from its proximity to New England's largest economic center, which is directly accessible by public transportation. The town's 2020 assessed value increased by 5.5% bringing the five year compound annual growth rate to 8.4%. Since 2006, the assessed value has declined in only one year by less than 1%. While the town is primarily residential, economic development activity will bring some larger commercial presence to the tax roll in the coming year including a 250,000 square foot medical office building that is owned by Boston Children's Hospital (Aaa stable) at 1 and 2 Brookline Place. Additionally, a 175-room Hilton Garden Inn is finishing construction at 700 Brookline Avenue.

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Median family income is strong and equal to 206% of the US median, while 2020 equalized value per capita continues to be a very strong \$414,422. The town's unemployment rate is a low 1.2% (December 2019) trending below the Commonwealth's 2.4% and 3.4% of the US.

#### **Financial operations and reserves: stability expected to continue given strong fiscal management**

The town's financial position is expected to remain stable over the near term given the town's history of balanced operations, maintenance of adequate reserves and commitment to addressing capital needs and long term liabilities. The town adheres to formal policies and multiyear budget planning aided by strong taxpayer support through a history of approving general overrides and debt exclusions to the tax levy limit.

The fiscal 2019 audited financials reflect a slight operating surplus of \$2.2 million due to positive variances in most revenue sources including licenses and permits as well as expenditure savings in all major departments. The surplus increased the general fund available fund balance to \$37.9 million representing 12.3% of general fund revenue. The primary revenue source was property taxes representing 72% of general fund revenue. The largest expenses were education and employee benefits representing 36% and 28% of general fund expenditures, respectively.

The fiscal 2020 budget increased by 5% from the prior year driven by education costs. In 2019, the town passed an override to the tax levy limit that included a three year plan to increase education funding with tax revenue in years one and two and then shift to non-tax revenue primarily from marijuana sales tax in 2021. The 2020 budget is balanced with a 6% increase in the tax levy and no use of free cash or other reserves for operations. The town continues to appropriate free cash toward reserves and additional contributions towards long term liabilities.

The 2020 long range financial plan includes a budget forecast that reflects growing but manageable operating deficits in the coming years. The fiscal 2021 forecast projects a \$5.3 million deficit equal to 1.7% of operating revenue that could grow to \$22.3 million or 6.4% of revenue by the end of fiscal 2024. The assumptions are conservative and as in years past, we expect the town to be able to close the budget gaps as the operating year approaches.

#### **LIQUIDITY**

Cash and investments at the end of fiscal 2019 were \$48.7 million representing 15.8% of general fund revenue. The liquidity position is not expected to materially change in the current fiscal year. The cash also provides very healthy coverage of outstanding short term notes.

#### **Debt and long term liabilities: Increasing debt burden supported by taxpayers while long term liabilities remain manageable**

Brookline's direct debt burden of 1.4% of equalized value and 1.1 times general fund revenue, including the 2020 issuance has recently increased given the large issuances related to a new high school and other education building renovations. While above average for the highest rating category, most of the debt is related to school projects. Additionally, town voters continue to show strong support for most debt financed projects. Including the 2020 issuance, \$276 million or 79% of town debt is excluded from the tax levy limits of Proposition 2½. The fiscal 2020-25 capital improvement plan totals \$267.6 million. The town will continue to adhere to its debt and capital funding policies that includes dedicating 6% of prior years net revenue to capital costs and total debt outstanding shall not exceed 2.5% of assessed value.

#### **DEBT STRUCTURE**

All of the town's debt is fixed rate with 44% of principal retired in 10 years. Fiscal 2019 debt service was \$15.6 million representing 5.1% of general fund expenses.

#### **DEBT-RELATED DERIVATIVES**

The town is not party to any interest rate swaps or other derivative agreements.

#### **PENSIONS AND OPEB**

Brookline's pension and OPEB liabilities are larger than the debt burden and though manageable at this time, represent a potential future credit challenge. The town participates in the Brookline Contributory Retirement System, a multi-employer defined benefit plan and makes annual required contributions based on its proportional share. The retirement plan is expected to be fully funded by

2030 and currently uses a 7.2% discount rate. Annual contributions to the plan are projected to increase by 7.85% annually. The town's teachers participate in the Massachusetts Teachers Retirement System in which the town receives on-behalf payments towards the liability that is covered by the Commonwealth. The town also funds its OPEB liability on a pay-go basis plus annual budgeted deposits into an OPEB trust. The table below summarizes the town's 2019 debt, pension and OPEB unfunded liabilities and contributions.

Exhibit 2

#### Brookline's debt, pension and OPEB liabilities and contributions

2019	Amount (\$ thousands)	% of Operating Revenues	Discount Rate
Operating Revenue	308,872		
Reported Net Pension Liability	239,733	77.62%	7.20%
Moody's Adjusted Net Pension Liability	474,752	153.71%	4.22%
Reported Net OPEB Liability	236,866	76.69%	7.20%
Moody's Adjusted Net OPEB Liability	474,657	153.67%	3.51%
Pension Contribution	23,485	7.60%	
Pension Tread Water Gap [1]	-3,864	-1.25%	-
OPEB Contribution	10,082	3.26%	-
Net Direct Debt	350,069	113.34%	-
Debt Service	15,631	5.06%	-
Total Fixed Costs	49,198	15.93%	-

[1] A positive pension tread water gap reflects a pension contribution smaller than the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. A negative tread water gap reflects a contribution larger than the amount required to keep the unfunded liability from increasing if all assumptions are realized.

Source: Moody's Investors Service and Brookline's audited financial statements

The town continues to aggressively fund its pension liability on an annual basis by contributing well above the tread water indicator in order to fully fund the plan by 2030. The tread water indicator is the amount required to keep the unfunded liability from increasing if all actuarial assumptions are realized. The town's 2015-2019 annual pension contributions averaged 199.5% of the annual tread water indicator. Additionally, the strong funding towards OPEB liability has helped to increase the OPEB plan's fiduciary net position to 17.69% of the total liability.

### ESG considerations

There is no material environmental risk to the town at this time although we view potential risk in the future to water stress from drought-like patterns and exposure to hurricanes and extreme rainfall. Brookline is committed to addressing long term environmental risks and in December 2017 completed a climate vulnerability assessment and action plan. The plan was an initial step to more definitely addressing concerns and has allowed the town receive state grants to pursue initiatives and collaborate regionally. Additionally, the town also passed a law in 2019 that bans the use of natural gas and heating oil pipes in new construction.

Social issues are not a material risk to the town at this time. The relatively affluent community does face challenges of affordable housing similar to the rest of the region.

Brookline's management team is strong and adheres to conservative budget practices and formal fiscal policies as well as the maintenance of multiyear budget and capital planning. The town has not reported any cyberattacks in the last year and is prepared to mitigate this risk in the future.

Massachusetts towns have an Institutional Framework score of "Aa," which is strong. The sector's major revenue source of property taxes, are subject to the Proposition 2 1/2 tax levy cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Expenditures primarily consist of personnel costs, as well as education costs for towns that manage school operations and are highly predictable given state-mandated school spending guidelines and employee contracts. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Fixed costs are driven mainly by debt service and pension costs. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

## Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Brookline (Town of) MA		
Scorecard Factors	Measure	Score
Economy/Tax Base (30%) <sup>[1]</sup>		
Tax Base Size: Full Value (in 000s)	\$24,547,879	Aaa
Full Value Per Capita	\$414,422	Aaa
Median Family Income (% of US Median)	206.2%	Aaa
Notching Factors: <sup>[2]</sup>		
Other Analyst Adjustment to Economy/Taxbase Factor: very strong socioeconomic indicators; history of voter support for overrides and exclusions to the tax levy limit		Up
Finances (30%)		
Fund Balance as a % of Revenues	12.3%	A
5-Year Dollar Change in Fund Balance as % of Revenues	3.8%	A
Cash Balance as a % of Revenues	15.8%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	4.6%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Notching Factors: <sup>[2]</sup>		
Unusually Strong or Weak Budgetary Management and Planning: strong budgetary management and planning		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.4%	Aa
Net Direct Debt / Operating Revenues (x)	1.1x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.9%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.5x	A
Scorecard-Indicated Outcome		Aa1
Assigned Rating		Aaa

[1] Economy measures are based on data from the most recent year available. [2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology. [3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: Moody's Investors Service and US Census Bureau

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